



Department of Defense DIRECTIVE

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USD(P&R)

SUBJECT: Establishment, Management, and Control of Nonappropriated Fund
Instrumentalities and Financial Management of Supporting Resources

- References: (a) DoD Directive 1015.1, "Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Related Activities," August 19, 1981 (hereby canceled)
- (b) DoD Directive 1015.6, "Funding of Morale, Welfare, and Recreation Programs," August 3, 1984 (hereby canceled)
- (c) [DoD Directive 1125.3](#), "Vending Facility Program for the Blind on Federal Property," April 7, 1978
- (d) [DoD Instruction 1000.15](#), "Private Organizations on DoD Installations," October 23, 1997
- (e) through (ii), see enclosure 1

1. PURPOSE

This Directive cancels and consolidates references (a) and (b) to prescribe policies and assign responsibilities for establishment, management, and control of nonappropriated fund instrumentalities (NAFIs), nonappropriated funds (NAF), and financial management of resources supporting NAFIs.

2. APPLICABILITY AND SCOPE

2.1. This Directive applies to the Office of the Secretary of Defense (OSD), the Military Departments, the Chairman of the Joint Chiefs of Staff, the Combatant Commands, the Defense Agencies, the DoD Field Activities, and all other organizational entities in the Department of Defense (hereafter referred to collectively as "the DoD

Components"). The term "Military Services," as used herein, refers to the Army, the Navy, the Air Force, and the Marine Corps.

2.2. The following funds are excluded from this Directive:

2.2.1. All funds accounted for under U.S. Treasury symbols (to include Defense Commissary Agency Surcharge Trust Funds) and resources acquired with appropriated funds (APF).

2.2.2. Trust funds, to include patient trust funds, prisoner personnel deposit funds, cadet and midshipmen personnel trust funds at Military Service academies, Ships Stores Funds Navy, and Armed Forces Retirement Home resident trust funds.

2.2.3. Contractor and subcontractor funds (including concessionaire funds) and vending facilities operated by the blind licensees under DoD Directive 1125.3 (reference (c)) on DoD installations.

2.2.4. Funds of private organizations, as defined in DoD Instruction 1000.15 (reference (d)).

2.2.5. Midshipmen's Store, United States Naval Academy.

2.2.6. Chaplains' Religious Funds.

2.2.7. Employee retirement and pension plan trust funds, including those for defined benefit and 401(k) plans, established under DoD 1401.1-M (reference (e)).

2.2.8. Donations to the Department of Defense or the Military Departments under DoD 7000.14-R, Volume 12 (reference (f)).

3. DEFINITIONS

Terms used in this Directive are defined in DoD Instruction 1015.15 (reference (g)).

4. POLICY

It is DoD policy that the establishment, management, and control of NAFIs and financial management of supporting resources be implemented in accordance with this Directive. Policy guidance is provided at enclosure 2.

5. RESPONSIBILITIES

5.1. The Under Secretary of Defense for Personnel and Readiness (USD(P&R)) shall:

5.1.1. Fulfill responsibilities delineated in DoD Directive 5124.2 and 10 U.S.C. 136 (references (h) and (i)), and serve as the principal staff assistant and advisor to the Secretary and Deputy Secretary of Defense for total force management as it relates to readiness, to include quality of life, morale, welfare and recreation (MWR), exchange, and NAF activities.

5.1.2. Ensure the Principal Deputy Under Secretary of Defense for Personnel and Readiness (PDUSD(P&R)), under the USD(P&R) and pursuant to DoD Directive 5124.8 (reference (j)), shall serve as the principal staff assistant and advisor to the USD(P&R) and the Secretary and Deputy Secretary of Defense for NAF policy and DoD military and civilian MWR programs, military exchange services, and other authorized NAFIs. In discharging this responsibility, the PDUSD(P&R) shall:

5.1.2.1. Develop, promulgate, and monitor compliance with policy and other guidance to ensure proper administration of NAFIs and management of their resources.

5.1.2.2. Serve as the principal DoD point of contact on all policy matters relating to NAFIs and NAF.

5.1.2.3. Establish the necessary advisory groups with representatives from the DoD Components to assist in the formulation, execution, and review of policies pertaining to NAFIs.

5.1.3. Ensure the Assistant Secretary of Defense (Reserve Affairs) (ASD(RA)), under the USD(P&R), shall serve as the principal point of contact on Reserve and National Guard personnel policy matters within the Military Departments (DoD Directive 5125.1 (reference (k))). In discharging the responsibility, the ASD(RA) shall monitor and ensure compliance with this policy.

5.2. The Under Secretary of Defense (Comptroller) (USD(C)) and the General Counsel of the Department of Defense shall fulfill responsibilities delineated in DoD Directives 5118.3 and 5145.1 (references (l) and (m)). These responsibilities shall apply equally to NAFIs, when applicable, and shall be carried out in coordination with the USD(P&R).

5.3. The Under Secretary of Defense (Acquisition, Technology, and Logistics) shall provide policy guidance and general procedures for temporary duty (TDY) and permanent change of station (PCS) lodging (DoD Directive 4165.63 (reference (n))).

5.4. The Assistant Secretary of Defense (Public Affairs) (ASD(PA)) shall serve as the principal point of contact on the Armed Forces Information Service publications (to include the "Stars and Stripes") within the Military Departments (DoD Directive 5122.5 (reference (o))). In discharging the responsibility, the ASD(PA) shall monitor and ensure compliance with this policy.

5.5. The Director, Administration and Management, Office of the Secretary of Defense, shall supervise and administer the DoD Concessions Committee within the immediate office of the Secretary of Defense, in accordance with DoD Directive 5120.18 (reference (p)).

5.6. The Heads of the DoD Components shall issue policies and procedures to implement this Instruction.

5.7. The Directors of the Defense Agencies; the Commanders of the Combatant Commands, the United Nations Command, the Combined Forces Command, the North American Aerospace Defense Command; and the Chiefs of Military Missions (Military Assistance Advisory Groups, Attachés, Missions, Contingents, or Security Assistance Offices) shall:

5.7.1. Establish, manage, and control NAFIs in accordance with the regulations of a single Military Department, normally that Department with administrative and logistical support responsibility, in accordance with DoD Directive 5100.3 (reference (q)). The designated Military Department shall coordinate financial reporting and communication with the PDUSD(P&R), as governed by this Directive.


5.7.2. Submit a written request to the Secretary of the Military Department concerned, or Military Service Headquarters designee, for authority, as prescribed by the regulations of that Department to establish a NAFI.

5.7.3. Be subordinate to the Military Department concerned or Military Service Headquarters designee, for purposes of compliance with DoD Directives and DoD Instructions, as implemented by the regulations of that Department.

5.8. The Director, Defense Finance and Accounting Service, under the USD(C), shall be responsible for NAF accounting for DoD NAFIs, except the Armed Service Exchanges, in accordance with DoD Directive 5118.5 (reference (r)).

6. EFFECTIVE DATE

This Directive is effective immediately.



Paul Wolfowitz
Deputy Secretary of Defense

Enclosures - 2

- E1. References, continued
- E2. Policy Guidance

E1. ENCLOSURE 1

REFERENCES, continued

- (e) [DoD 1401.1-M](#), "Personnel Policy Manual for Nonappropriated Fund Instrumentalities," December 13, 1988
- (f) DoD 7000.14-R, Financial Management Regulation, Volume 12, "Special Accounts, Funds, and Programs," August 2002
- (g) [DoD Instruction 1015.15](#), "Procedures for Establishment, Management and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources," July 16, 2003
- (h) [DoD Directive 5124.2](#), "Under Secretary of Defense for Personnel and Readiness (USD(P&R))", October 31, 1994
- (i) Section 136 of title 10, United States Code, "Under Secretary of Defense for Personnel and Readiness"
- (j) [DoD Directive 5124.8](#), "Principal Deputy Under Secretary of Defense for Personnel and Readiness," July 16, 2003
- (k) [DoD Directive 5125.1](#), "Assistant Secretary of Defense for Reserve Affairs," March 2, 1994
- (l) [DoD Directive 5118.3](#), "Under Secretary of Defense (Comptroller) (USD(C))/Chief Financial Officer (CFO), Department of Defense," January 6, 1997
- (m) [DoD Directive 5145.1](#), "General Counsel of the Department of Defense," May 2, 2001
- (n) [DoD Directive 4165.63](#), "DoD Housing," July 20, 1989
- (o) [DoD Directive 5122.5](#), "Assistant Secretary of Defense for Public Affairs," September 27, 2000
- (p) [DoD Directive 5120.18](#), "DoD Concessions Committee," January 13, 1999
- (q) [DoD Directive 5100.3](#), "Support of the Headquarters of Combatant and Subordinate Joint Commands," November 15, 1999
- (r) [DoD Directive 5118.5](#), "Defense Finance and Accounting Service," November 26, 1990
- (s) [DoD Directive 1330.9](#), "Armed Services Exchange Policy," November 27, 2002
- (t) DoD Directive 7700.20, "Commissary Surcharge, Nonappropriated Fund (NAF), and Privately Financed Construction," July 16, 2003
- (u) [DoD Instruction 1015.10](#), "Programs for Military Morale, Welfare and Recreation (MWR)," November 3, 1995
- (v) [DoD Instruction 6060.2](#), "Child Development Programs (CDPs)," January 19, 1993
- (w) [DoD Instruction 6060.3](#), "School-Age Care (SAC) Program," December 19, 1996

- (x) [DoD Instruction 1015.12](#), "Lodging Program Resource Management," October 30, 1996
- (y) [DoD Instruction 1330.21](#), "Armed Services Exchange Regulations," February 4, 2003
- (z) [DoD Directive 1015.8](#), "DoD Civilian Employee Morale, Welfare and Recreation (MWR) Activities and Supporting Nonappropriated Fund Instrumentalities (NAFIs)," October 22, 1985
- (aa) [DoD Instruction 1015.13](#), "Department of Defense Procedures for Implementing Public-Private Ventures (PPVs) for Morale, Welfare and Recreation (MWR) Category C Revenue-Generating Activities," June 17, 1998
- (bb) Section 1301 of title 31, United States Code, "Application"
- (cc) DoD 7000.14-R, Financial Management Regulation, Volume 13, "Nonappropriated Funds Policy and Procedures," August 1994
- (dd) Section 361, National Defense Authorization Act for Fiscal Year 1993, Public Law 102-484, "Standardization of Certain Programs and Activities of Military Exchanges"
- (ee) Section 2783 of title 10, United States Code, "Nonappropriated Fund Instrumentalities; Financial Management and Use of Nonappropriated Funds"
- (ff) Chapter 47 of title 10, United States Code, "Uniform Code of Military Justice"
- (gg) [DoD Instruction 7600.6](#), "Audit of Nonappropriated Funds and Related Activities," April 16, 1987
- (hh) [DoD Instruction 1401.1](#), "Personnel Policy for Nonappropriated Fund Instrumentalities," November 15, 1985
- (ii) [DoD 1400.25-M](#), "DoD Civilian Personnel Manual," December 3, 1996

E2. ENCLOSURE 2

POLICY GUIDANCE

E2.1.1. NAF are public monies and assets from sources other than monies appropriated by the Congress of the United States. NAF are separate and apart from funds recorded in the books of the Treasurer of the United States. NAF shall be administered only through the auspices of a NAFI. NAF are designated for the collective benefit of authorized patrons and the purposes of the NAFI. Individuals, units, organizations, installations or commands shall have no proprietary interest in NAF funds or other assets. NAF funds or assets shall not be transferred to private organizations.

E2.1.2. ANAFI is the organizational and fiscal entity specifically established to carry out an essential Government function. As an instrumentality of the U.S. Government, it enjoys the same immunities and privileges as the U.S. Government in the absence of specific Federal statute. ANAFI also acts in its name to provide or assist other DoD organizations in providing programs for DoD personnel, their families, and other authorized personnel. NAFI programs and facilities shall be operated, maintained, and funded as an integral part of the personnel and readiness program. As a fiscal entity, a NAFI maintains custody of and control over its NAF and administers APF resources to carry out its purposes in accordance with reference (g).

E2.1.2.1. ANAFI shall be established by the Head of the DoD Component or Military Service headquarters designee. The function to be performed by a NAFI must be such that there is a valid requirement for a separate organizational and fiscal entity; the protection and immunities accorded an instrumentality of the U.S. Government are necessary; and, there is no prohibition by or conflict with Federal statute, Status of Forces Agreements, treaties, or other applicable Federal regulations.

E2.1.2.2. The Head of the DoD Component, or the Military Service Headquarters designee, shall be responsible for NAFI oversight, appoint an advisory group for each NAFI, and shall prescribe appropriate analysis and evaluation procedures and indicators to ensure that NAFIs are meeting Program Group objectives for which established.

E2.1.2.3. Each NAFI shall have a designated successor NAFI at the DoD Component level or Military Service headquarters to receive or redistribute residual NAFI assets and liabilities. The successor NAFI is the instrumentality of last resort if there is financial insolvency or disestablishment of a subordinate NAFI.

E2.1.2.4. Joint NAFIs shall be established by agreement between the Heads of the DoD Components concerned, subject to the approval of Principal Deputy Under Secretary of Defense for Personnel and Readiness (PDUSD(P&R)). A successor NAFI shall be established within each of the participating DoD Components and a single DoD Component shall be designated as the executive agent to coordinate reporting and communication to the PDUSD(P&R), except for communications of the Secretary of a Military Department prescribed by DoD Directive 1330.9 and DoD Directive 7700.20 (references (s) and (t)).

E2.1.2.5. A NAFI shall be disestablished when the purpose for it no longer exists, when consolidated with another NAFI, or when it is not a viable fiscal entity and cannot maintain self-sufficiency.

E2.1.3. DoD programs of activities and their supporting NAFIs are classified into one of six Program Groups to assure uniformity in the establishment, management, and allocation and control of resource support. Management and resource data shall be reported in accordance with this system of classification.

E2.1.3.1. Program Group I: Military Morale, Welfare and Recreation (MWR) Programs. Military MWR programs, to include child development and recreational lodging programs, are defined in DoD Instructions 1015.10, 6060.2, and 6060.3 (references (u), (v), and (w)). PCS lodging programs are included in Program Group I when operated as part of the military MWR program in accordance with DoD Instruction 1015.12 (reference (x)).

E2.1.3.2. Program Group II: Armed Services Exchange Programs. Armed Services exchange programs are defined in DoD Instruction 1330.21 (reference (y)).

E2.1.3.3. Program Group III: Civilian MWR Programs. MWR programs designed for DoD civilians are defined in DoD Directive 1015.8 (reference (z)).

E2.1.3.4. Program Group IV: Lodging Program Supplemental Mission Funds. NAFIs operated as an adjunct to the lodging programs for TDY and PCS official travelers are defined in reference (x).

E2.1.3.5. Program Group V: Supplemental Mission Funds. NAFIs operated as an adjunct to DoD mission activities that generate NAF are defined in reference (g).

E2.1.3.6. Program Group VI: Special Purpose Central Funds. DoD Component and Military Service Headquarters central funds designated as the sole provider of a consolidated, general administrative service or function (such as NAF employee life and health insurance and NAF risk management) are defined in reference (g).

E2.1.4. NAFI resources shall be administered in an economical, efficient, and business-like manner. The DoD Components shall ensure that programs and resources are planned, programmed, and budgeted using the proper funding source and the suitable mix of APF, NAF, and other approved funding resources. Within each Program Group, activities are further classified into one of three funding categories. The funding categories are the basis of the APF and NAF authorizations at reference (g). Private resources in support of NAFI programs shall be administered in accordance with DoD Instruction 1015.13 (reference (aa)). Donations shall be administered under the provisions of reference (f).

E2.1.4.1. Category A: Mission Sustaining Activities. Category A activities have virtually no capacity for generating NAF revenues and are supported almost entirely with APF. The use of NAF is limited to specific instances where APF are prohibited by law or when NAF support is essential for the operation.

E2.1.4.2. Category B: Basic Community Support Activities. Category B activities are financed with a mix of NAF and APF resources. Because their NAF revenue-generating capability is limited, these activities will be substantially supported with APF.

E2.1.4.3. Category C: Revenue-Generating Activities. Category C activities have the highest capability to generate NAF revenues and generally receive only indirect APF support. Overseas activities are authorized limited direct APF support. Military MWR and Armed Service Exchange activities at designated remote and isolated locations are authorized funding under Category B rules under the provisions of references (u) and (y).

E2.1.5. Use of APF shall be consistent with the provisions of 31 U.S.C. 1301 (reference (bb)), which provides that funds shall be used only for the purposes for which they were appropriated. Alternate procedures to expend appropriations to support operations of Program Groups I, II, and V (Stars and Stripes only) under a memorandum of agreement are specified in reference (g).

E2.1.6. NAF accounting systems, except those utilized by the Armed Services Exchanges, shall comply with the uniform chart of accounts established by DoD 7000.14-R, Volume 13 (reference (cc)). The DoD Components shall jointly establish and maintain a uniform chart of accounts and common financial reporting procedures for the Armed Services Exchanges in accordance with Section 361 of Public Law 102-484 (reference (dd)). NAF accounting systems must comply with generally accepted accounting principles.

E2.1.7. The DoD Component or Military Service Headquarters designee shall maintain management and financial information and submit annual consolidated financial and management reports in accordance with reference (g).

E2.1.8. NAF may be accumulated and invested to meet cash flow requirements. The DoD Components shall exercise the utmost caution to ensure the safety of NAF. NAF accounts shall be maintained in financial institutions that are U.S. federally insured or designated by the U.S. Treasury. Transactions and investments shall be limited to obligations of organizations or institutions that are sponsored, insured, or backed by pledge of collateral by the U.S. Government. NAF on deposit with financial institutions shall be sufficiently liquid to meet requirements and shall earn a rate of return that preserves the value of funds invested. The Head of the DoD Component is responsible for NAF deposits and investments at all echelons, shall identify fiduciary responsibility, and shall require the establishment of an investment oversight group for each organization that invests NAF. At least annually, the PDUSD(P&R) shall convene a meeting of DoD representatives to review NAF treasury management and investment policy and practices. An annual report shall be submitted to the PDUSD(P&R) in accordance with reference (g).

E2.1.9. NAF are Government funds entitled to the same protection as funds of the U.S. Treasury. The DoD Components shall establish such systems as necessary to assure there is an individual fiduciary responsibility for properly using NAF resources and preventing waste, loss or unauthorized use. This responsibility extends to all DoD personnel, to include members of the Armed Forces and civilians paid with either APF or NAF. Under 10 U.S.C. 2783 (reference (ee)), NAF personnel who violate NAF regulations are subject to the same penalties under Federal law that govern the misuse of appropriations by APF personnel. Violations by military personnel are punishable under the Uniform Code of Military Justice (reference (ff)).

E2.1.10. The Head of the DoD Component shall provide for the periodic review and audit of NAFIs to assure continued need for the functions performed and that those

needs are being met in accordance with sound business practices. NAF audit policy is contained in DoD Instruction 7600.6 (reference (gg)).

E2.1.11. The DoD Components shall ensure that NAF assets are adequately protected through risk management programs.

E2.1.12. Management of NAF civilian employees shall be in accordance with DoD 1401.1-M, DoD Instruction 1401.1, and DoD 1400.25-M (references (e), (hh), and (ii)).